

**Report for:** Pensions Committee and Board 14 March 2019

**Item number:**

**Title:** Pension Fund Quarterly Update

**Report authorised by:** Jon Warlow, Director of Finance (S151 Officer)

**Lead Officer:** Thomas Skeen, Head of Pensions, Treasury and Chief Accountant  
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**Ward(s) affected:** N/A

**Report for Key/  
Non Key Decision:** Non Key decision

## 1. Describe the issue under consideration

- 1.1. To report the following in respect of the three months to 31 December 2018:
- Funding Level Update
  - Investment asset allocation
  - Investment performance

## 2. Cabinet Member Introduction

2.1 Not applicable.

## 3. Recommendations

- 3.1 That the information provided in respect of the activity in the three months to 31 December 2018 is noted.

## 4. Reason for Decision

4.1. N/A

## 5. Other options considered

5.1. None

## 6. Background information

- 6.1. This update report is produced on a quarterly basis. The Local Government Pension Scheme Regulations require the Committee and Board to review investment performance and sections 11 and 12 of this report provide the information to this end. Appendix 1 shows the targets which have been

agreed with the fund managers. The report covers various issues on which the Committee and Board have requested they receive regular updates.

## **7. Contribution to Strategic Outcomes**

7.1. Not applicable

## **8. Statutory Officers comments (Chief Operating Officer (including procurement), Assistant Director of Corporate Governance, Equalities)**

### Finance and Procurement

8.1. The CFO (S151 Officer) has been consulted on this report and there is no direct financial impact from the contents of this report.

### Legal Services Comments

8.2. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.

8.3. All monies must be invested in accordance with the Investment Strategy and members of the Committee should keep this duty in mind when considering this report and take proper advice on the matter.

### Comments of the Independent Advisor

8.4. As appended to this report in Appendix 2

### Equalities

8.5. The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Council to participate. There are no impacts in terms of equality from the recommendations contained within this report.

## **9. Use of Appendices**

9.1. Appendix 1: Investment Managers' mandates, benchmarks and targets.

9.2. Appendix 2: Independent Advisor's Market commentary

9.3. Confidential Appendix 3: Funding and Risk Report from the Fund Actuary

## **10. Local Government (Access to Information) Act 1985**

10.1. Not applicable.

## **11. Funding Position Update**

- 11.1. At the most recent valuation 31 March 2016, the Fund had a funding position of 79.1% - meaning that the fund's investment assets were sufficient to pay 79.1% of the pension benefits accrued at that date.
- 11.2. The Fund's Actuary, Hymans Robertson LLP, has calculated an indicative funding position update for 31 December 2018, and this showed an improvement to an 82.6% funding level. This position was a decline from 30 September 2018 which showed 90.4%. The performance of equity markets in the final quarter of 2018 led to the fund's assets decreasing in value and this funding level drop.
- 11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has increased slightly to an indicative £279m as at 31 December 2018.
- 11.4. Confidential Appendix 3 shows the funding and risk report produced by the fund actuary as at 31 December 2018, giving further detail regarding this.

## **12. Portfolio Allocation Against Benchmark**

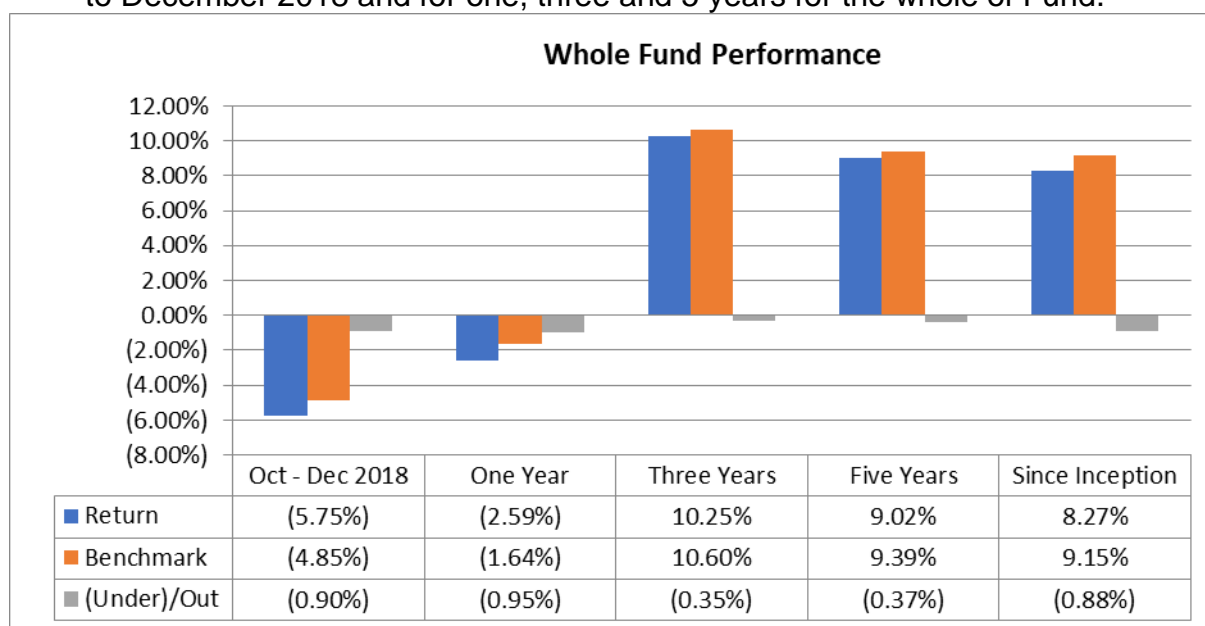
- 12.1. The value of the fund decreased by £123.3m between September and December 2018. A decrease in value was expected due to the bulk transfer from the College of Haringey, Enfield and North East London which left the fund during the quarter (£40.4m), the remaining decrease in value is attributable to the fund's investments' performance, most notably, equity holdings. The fund's private equity, property and index linked gilts delivered positive returns over the quarter, all other investments delivered negative returns.
- 12.2. The equity, multi sector credit and multi asset absolute return allocations exceed their strategic allocation, these represent funds which are yet to be called upon by the funds managers for property, private equity and renewable energy which are beneath their strategic allocation.

## Total Portfolio Allocation by Manager and Asset Class

	Value	Value	Value	Allocation	Strategic	Variance
	30.06.2018	30.09.2018	31.12.2018	31.12.2018	Allocation	
	£'000	£'000	£'000	%	%	%
<b>Equities</b>						
UK	82,007	0	0	0.00%	0.00%	0.00%
North America	120,146	0	0	0.00%	0.00%	0.00%
Europe	38,249	0	0	0.00%	0.00%	0.00%
Japan	18,217	0	0	0.00%	0.00%	0.00%
Asia Pacific	18,063	0	0	0.00%	0.00%	0.00%
Multi Factor Global	0	284,607	249,997	19.17%	19.20%	-0.03%
Emerging Markets	90,414	95,831	92,094	7.06%	6.60%	0.46%
Global Low Carbon Tgt	275,568	291,609	255,867	19.62%	19.20%	0.42%
<b>Total Equities</b>	<b>642,664</b>	<b>672,047</b>	<b>597,958</b>	<b>45.86%</b>	<b>45.00%</b>	<b>0.86%</b>
<b>Bonds</b>						
Index Linked	183,089	180,552	184,210	14.13%	15.00%	-0.87%
<b>Property</b>						
Aviva	0	0	0	0.00%	5.00%	-5.00%
CBRE	88,668	87,989	96,033	7.36%	7.50%	-0.14%
<b>Private equity</b>						
Pantheon	55,291	59,135	60,312	4.63%	5.00%	-0.37%
<b>Multi-Sector Credit</b>						
CQS	128,220	130,236	127,629	9.79%	7.00%	2.79%
<b>Multi-Asset Absolute Return</b>						
Ruffer	172,193	171,630	153,061	11.74%	7.50%	4.24%
<b>Infrastructure Debt</b>						
Allianz	40,688	41,304	40,339	3.09%	3.00%	0.09%
<b>Renewable Energy</b>						
CIP	1,151	1,912	2,595	0.20%	2.50%	-2.30%
Blackrock	19,751	20,705	22,111	1.70%	2.50%	-0.80%
<b>Cash &amp; NCA</b>						
Cash	61,042	61,676	19,685	1.51%	0.00%	1.51%
<b>Total Assets</b>	<b>1,392,757</b>	<b>1,427,186</b>	<b>1,303,933</b>	<b>100%</b>	<b>100%</b>	<b>0.00%</b>

### 13. Investment Performance Update: to 31 December 2018

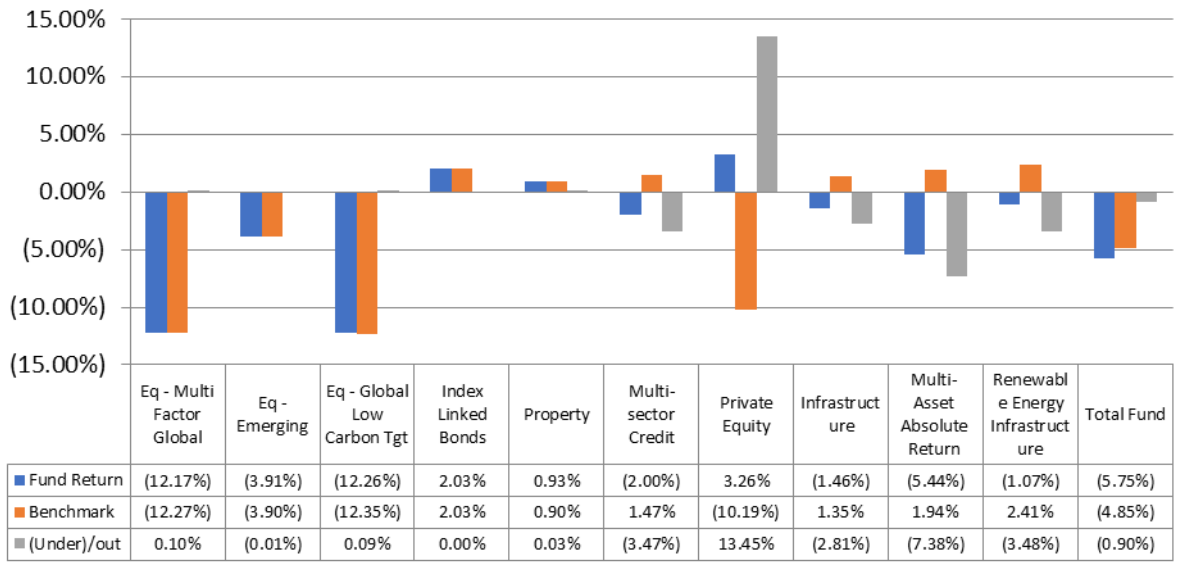
13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter October to December 2018 and for one, three and 5 years for the whole of Fund.



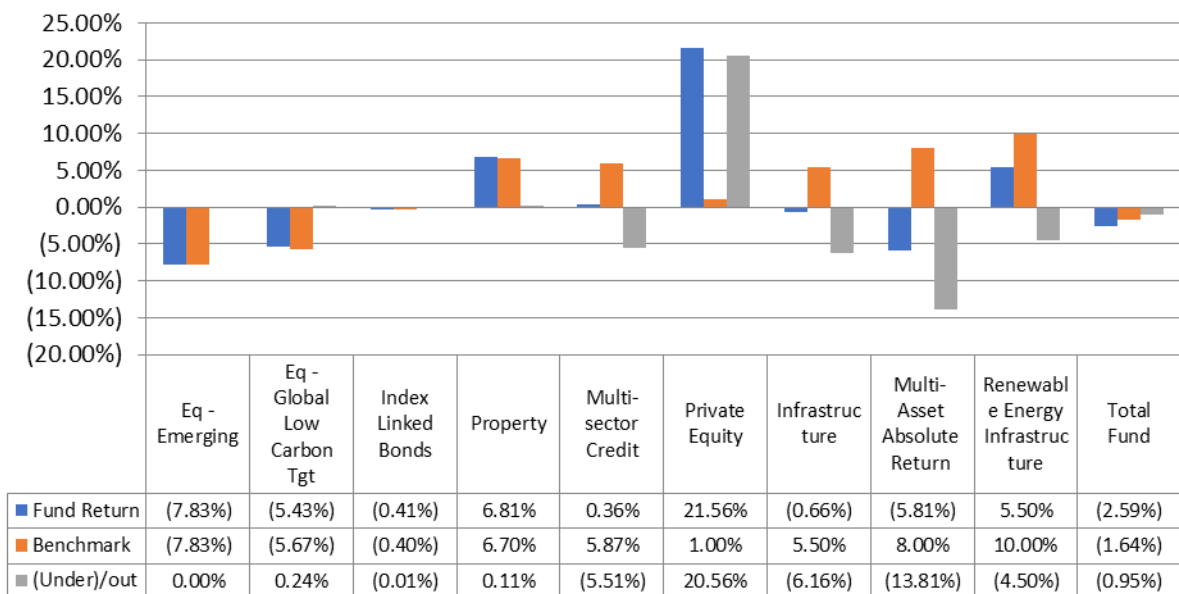
13.2. The Fund returned -5.75% in the quarter: below the benchmark of -4.85%. Almost all investments delivered negative returns over the quarter, with private equity, property and index linked gilts delivering the only positive returns.

13.3. Over the last 12 months the Fund returned -2.59%, below benchmark of -1.64%. The three year and five year performance is more closely aligned to the benchmark, as demonstrated in the table above.

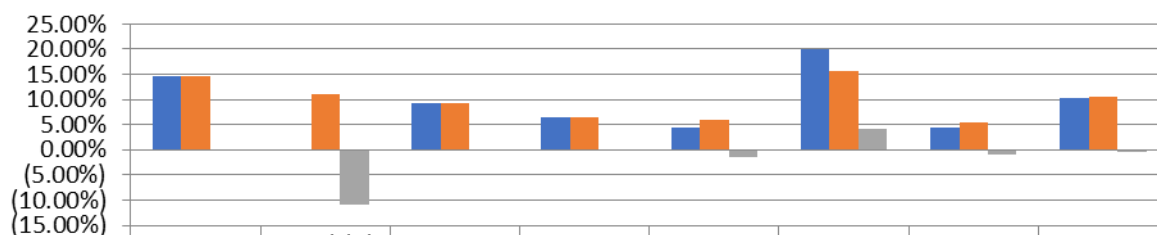
### Quarter (Oct-Dec 2018) Performance



### One Year Performance

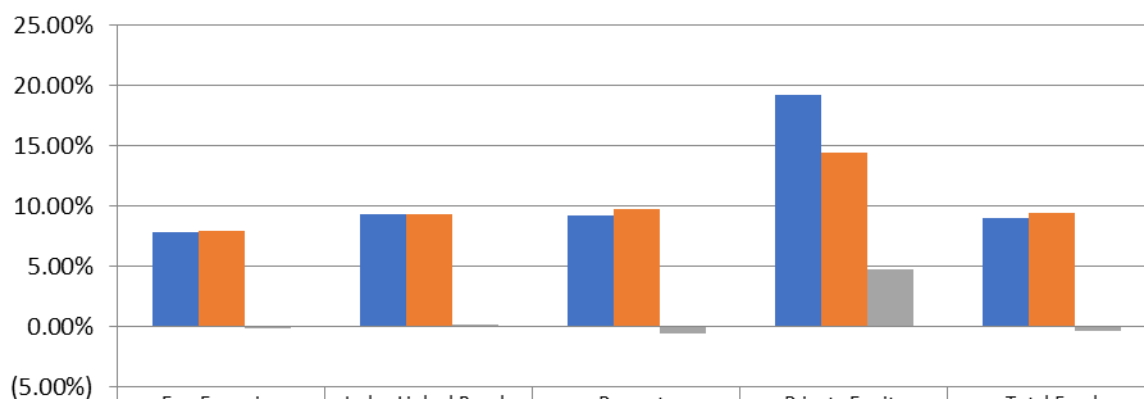


### Three Year Performance



	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Return	14.64%		9.17%	6.50%	4.50%	19.89%	4.47%	10.25%
Benchmark	14.75%	10.99%	9.17%	6.51%	5.87%	15.76%	5.50%	10.60%
(Under)/out	(0.11%)	(10.99%)	0.00%	(0.01%)	(1.37%)	4.13%	(1.03%)	(0.35%)

### Five Year Performance

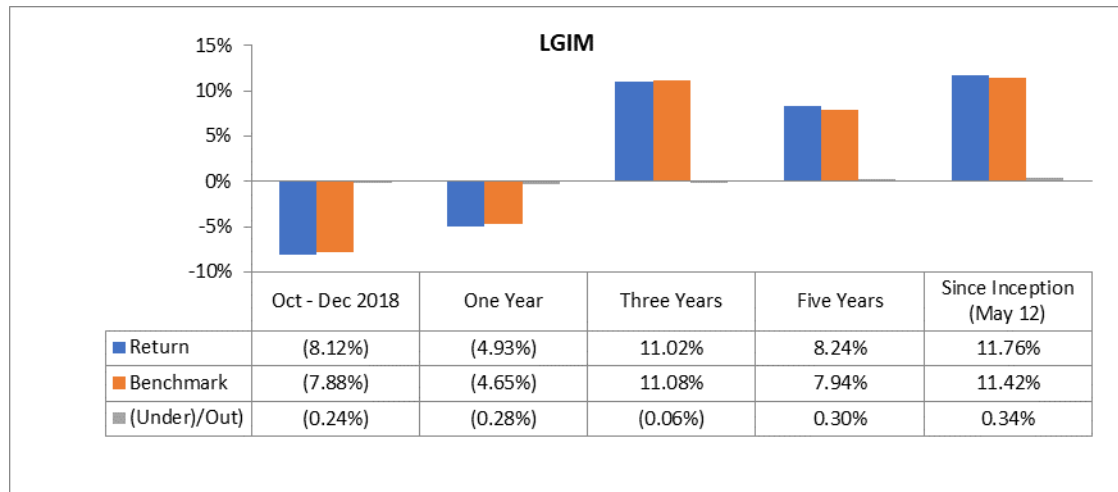


	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	7.77%	9.34%	9.15%	19.18%	9.02%
Benchmark	7.89%	9.30%	9.75%	14.40%	9.39%
(Under)/out	(0.12%)	0.04%	(0.60%)	4.78%	(0.37%)

## FUND MANAGER PERFORMANCE

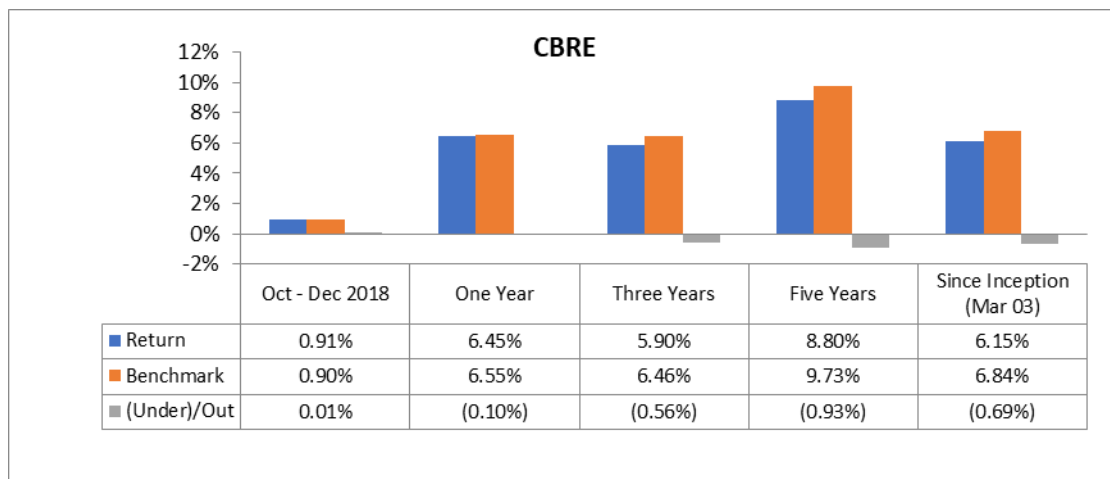
### Legal & General Investment Management (LGIM)

13.4. Legal and General returned -8.12% this quarter and has slightly underperformed composite benchmark of -7.88%. This negative performance is to be expected due to global stock market decline in the final quarter of 2018.



### CBRE

13.5. The manager saw a positive total return of 0.91% in the quarter, almost exactly in line with their benchmark of 0.90%. CBRE lags slightly behind benchmark over 3, and 5 years, as well as since portfolio inception: however, this position has been steadily improving over recent quarters.



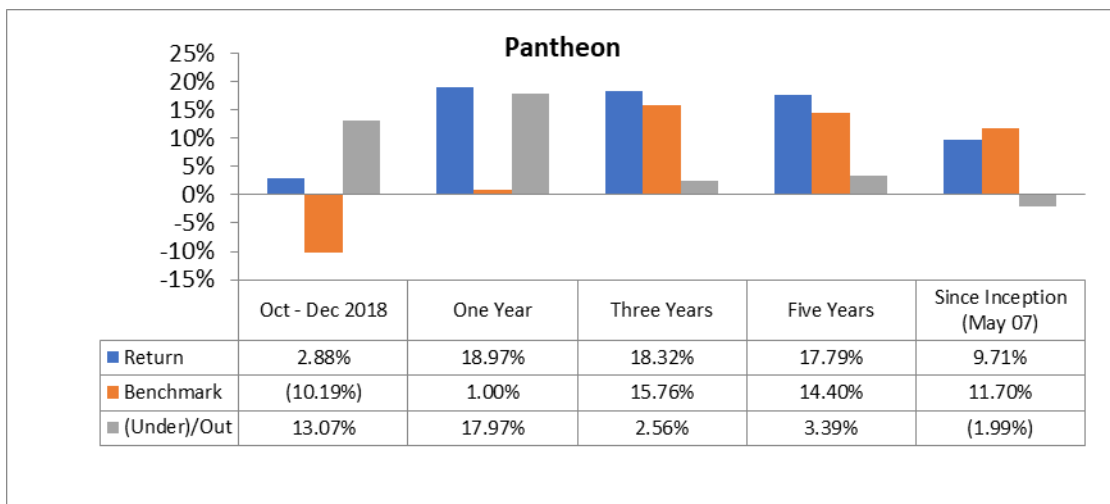
13.6. The relative performance of the property portfolio was affected by two European funds that suffered significant loss, the final holdings in which were



sold in 2017: the effects of this will still show a lag on performance for some time to come.

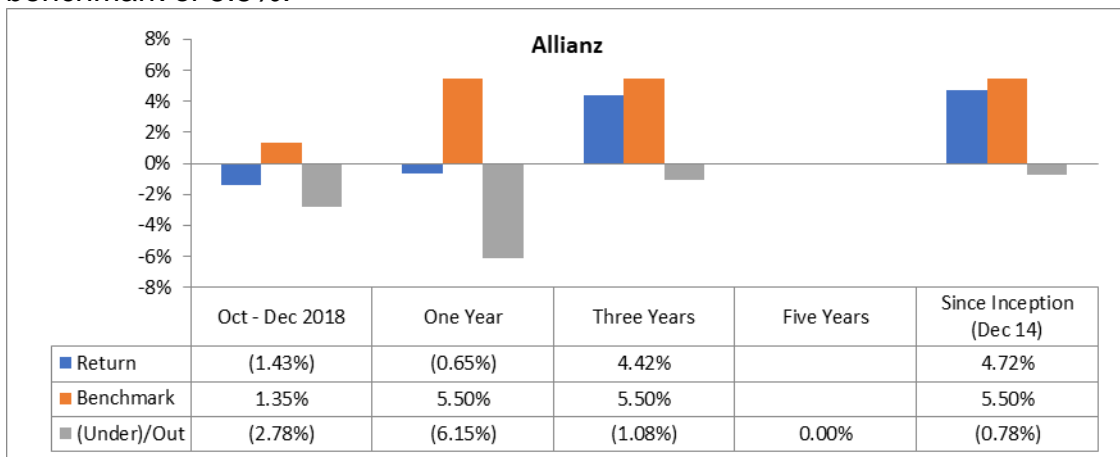
### **Pantheon Private Equity**

13.7 Pantheon Private Equity outperformed their benchmark by 13.07%, showing little correlation to global stock market performance during the quarter. Officers note that private equity is an asset class where valuations take significant amounts of time to be available however, so the December valuations for private equity are not finalised, which will be captured in the following quarter. The manager is showing a positive return above benchmark over a 1, 3 and 5 year time period, which is pleasing, and is an improved position compared to previous quarters.



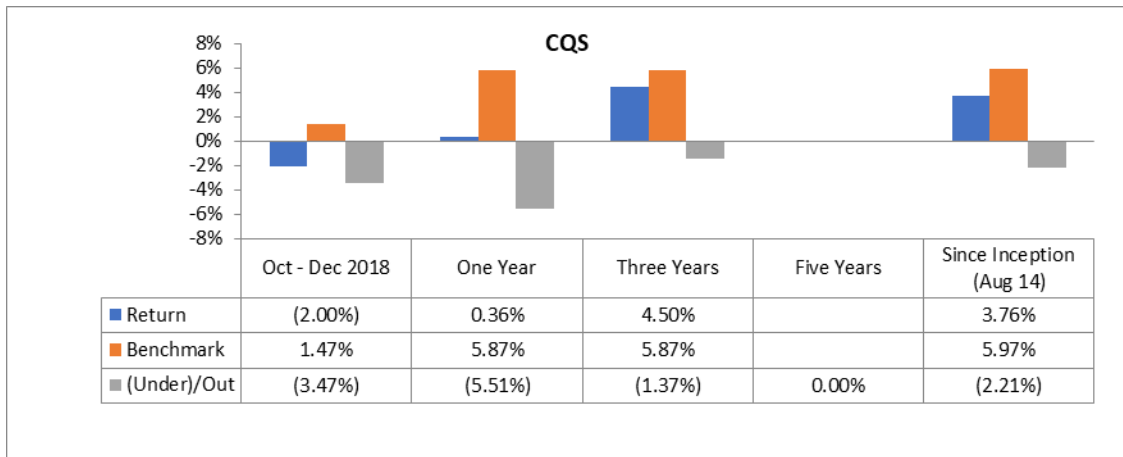
### **Allianz Infrastructure Debt**

13.8 Allianz has performed poorly compared to benchmark over the past 1 year, however, since portfolio inception the performance has fallen below the benchmark of 5.5%.



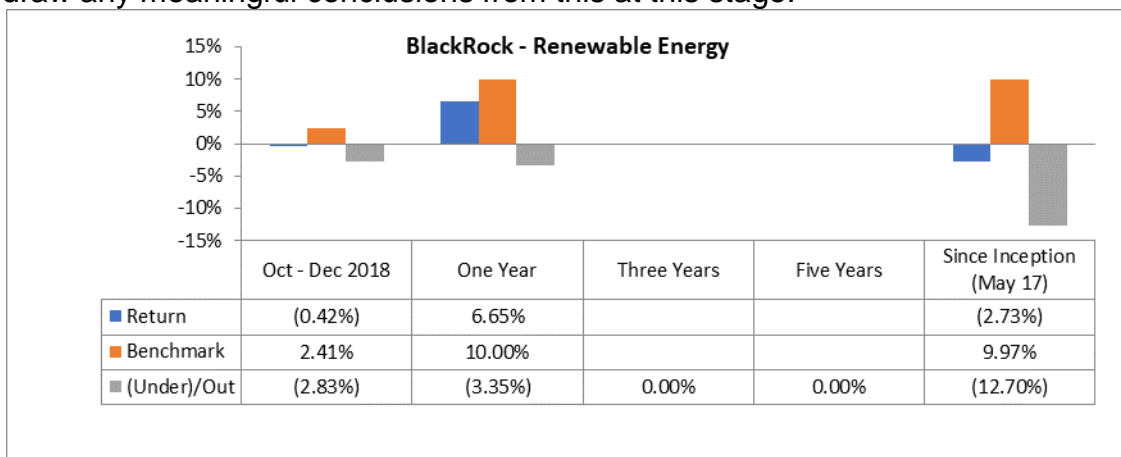
### CQS Multi Sector Credit

13.9 The manager underperformed relative to benchmark in the quarter achieving a return of -2.00% against the benchmark of 1.47%. The manager lags behind benchmark over all time horizons measured.



### BlackRock – Renewable Energy

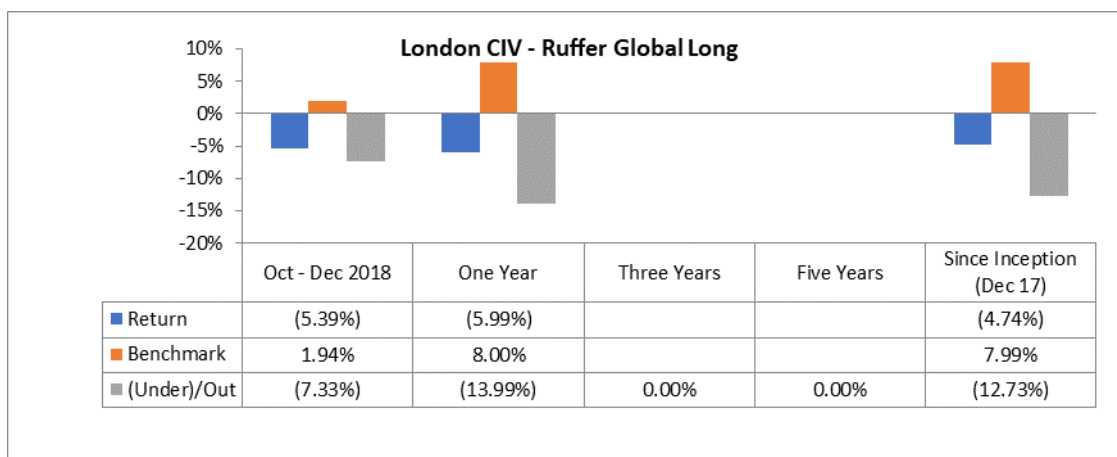
13.10. The manager had underperformed relative to benchmark in the quarter achieving a return of -0.42% against the benchmark of 2.41%, however the portfolio is in the very early stages, and is not fully invested, so it is too early to draw any meaningful conclusions from this at this stage.



### London CIV – Ruffer Multi Asset Absolute Return Strategy

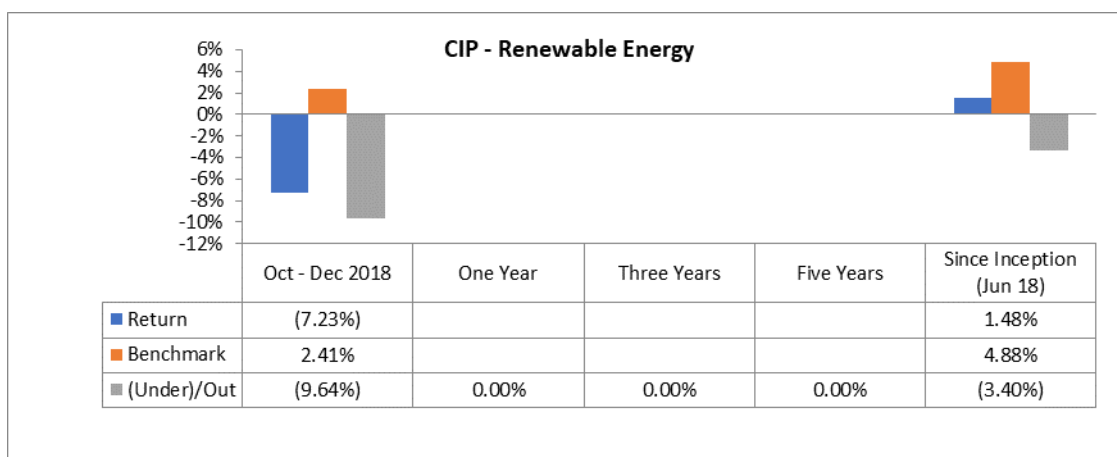
13.11. The investment was originally made in December 2017. The manager delivered a performance of -5.39% over the quarter, underperforming benchmark, however preserving capital when compared to equity market performance. Providing diversification from listed equity investment and protection in downward markets, relative to listed equity performance, is an objective of the Ruffer investment which was achieved in the October to

December quarter. The investment allocation was made by reducing the fund's equity investments.



### **CIP – Renewable Energy**

13.12. The manager has underperformed relative to benchmark in the quarter achieving a return of -7.23% against the benchmark of 2.41%, however the portfolio is in the very early stages, and is not fully invested, so it is too early to draw any meaningful conclusions from this at this stage.



## Appendix 1 – Strategic Asset Allocation (as at 31.12.18)

<b>Manager</b>	<b>% of Total Portfolio</b>	<b>Mandate</b>	<b>Benchmark</b>	<b>Performance Target</b>
Legal & General Investment Management	60.0%	Global Equities & Bonds	See overleaf	Index (passively managed)
London CIV - CQS Subfund	7.0%	Multi Sector Credit	3 month libor + 5.5% p.a.*	Benchmark
Allianz	3.0%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	7.5%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5.0%	Private Equity	MSCI World Index plus 3.5%	Benchmark
London CIV - Ruffer Subfund	7.5%	Multi Asset Absolute Return	8.00% p.a.	Benchmark
Aviva	5.0%	Long Lease Property	50% FTSE Actuaries 5-15 Year Gilt Index, 50% FTSE 15 Years + Gilt Index*	+1.50% p.a. over the medium to long term
Copenhagen Investment Partners	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Blackrock	2.5%	Renewable Energy	10.0% p.a.	Benchmark
<b>Total</b>	<b>100.0%</b>			

<b>Asset Class</b>	<b>Benchmark</b>	<b>Legal &amp; General Investment Management</b>
Multi Factor Global	RAFI Multi Factor (Unhedged)	<b>9.6%</b>
Multi Factor Global	RAFI Multi Factor (Hedged)	<b>9.6%</b>
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	<b>6.6%</b>
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	<b>9.6%</b>
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	<b>9.6%</b>
Index Linked Gilts	FTA Index Linked Over 5 Years Index	<b>15.0%</b>
<b>Total L&amp;G</b>		<b>60.0%</b>